

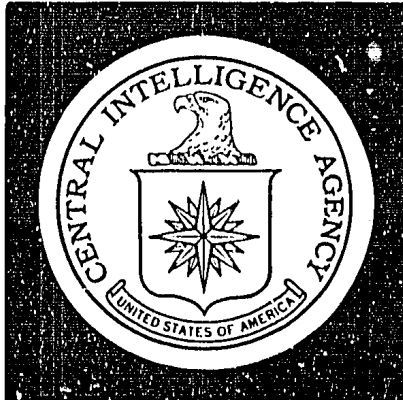
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**DIRECTORATE OF  
INTELLIGENCE**

# Intelligence Memorandum

*Economic Developments In North Vietnam In 1970*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
April 1971

INTELLIGENCE MEMORANDUM

Economic Developments In North Vietnam In 1970

Introduction

1. North Vietnam's reconstruction efforts immediately following the bombing halt of November 1968 were focused on repair of transportation facilities and military installations, much of which was completed in 1969. By the beginning of 1970 the regime was in a position to give increased attention to restoration of other sectors of the economy. This memorandum reviews economic performance and economic policy developments in North Vietnam in 1970, particularly in the context of emerging trends in the post-bombing period.

Summary and Conclusions

2. In the two years since the bombing halt, economic reconstruction in North Vietnam has reached the half-way mark. By 1970, output had recovered to about 85%-90% of pre-bombing levels in both industry and agriculture in contrast to the low points of 65% for industry in 1967 and 80% for agriculture in 1968. At the current growth rate of around 6%, total output will not reach the pre-bombing levels for two more years.

3. The slowness of recovery since the bombing halt is primarily due to war-related disruption. Large-scale recruitment of men into military service, while partly offset in quantitative terms by an increase in the employment of women, has caused

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a deterioration in the quality of the labor force and contributed to the sharp decline in labor productivity. Decentralization of industry to escape the bombing has resulted in inefficient use of machinery and breakdowns in distribution of materials and products. Electric power capacity, greatly cut by the bombing, has been a bottleneck to industrial expansion. And in all probability the large shipments of foodstuffs and other consumer goods from the Communist countries, which have made up for North Vietnamese shortfalls, have weakened the incentive for the North Vietnamese to accelerate the recovery program.

4. Although developments in the war during 1970, to which North Vietnam reacted by sharply increasing military recruitment, probably had some unfavorable impact on the economy and may have further postponed consideration of long-range development plans, there is no indication of substantial changes in priorities. Economic development and the "building of socialism" have taken a back seat to fighting the war and continue to do so. As the war goes on, North Vietnam is forgoing year after year of economic growth. Its national product is probably some \$700 million less than it would be in the absence of the war. But with economic support from Communist countries, it is managing to cover basic needs and make slow progress.

DiscussionOverall Output

5. North Vietnam's economy made modest overall advances in 1970, but output has not yet reached the pre-bombing level. Gross national product (GNP) is estimated to have increased 6%, or about the average rate achieved in the seven-year period immediately preceding the war. GNP is estimated to have reached roughly \$1.4 billion, about 90% of the estimated 1964 level of around \$1.6 billion.

6. Hanoi has not made restoration of the economy a first-priority item. Thus the rate of recovery has been extremely slow and is attributable to a combination of factors. The labor force in

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1970 was actually slightly larger than at the outset of the war despite the drain of manpower into military service, so that output per worker evidently was far below the prewar level. The low level of productivity probably reflects largely the failure to eliminate some bottlenecks, especially in electric power, the qualitative decline that must have taken place in the labor force as a result of the drain of able-bodied men and skilled labor into military service, and the inefficiency resulting from the dispersal of industry carried out to minimize the impact of bombing.

7. Had there been no war, GNP probably could have grown some 5% a year during 1965-70 and reached \$2.1 billion, \$700 million more than the actual level. Gains in productivity alone (through capital formation and improved technology) would have pushed GNP up to perhaps \$1.9 billion. The remainder of the gap between output in 1970 and what it would have been without the war can be explained by the lack of normal growth in the labor force resulting from the diversion of an estimated 1 million men into military service during 1965-70.

#### Economic Policy

8. No major shifts in domestic economic policy were evident during 1970. The 1970 state plan remained basically unchanged from the 1969 plan. The one notable change was the reduced emphasis on expanding communication and transportation facilities -- presumably because of the substantial reconstruction and improvements already completed. Growth of agricultural production and the production of consumer goods by local industry were listed as the main tasks of the 1970 plan.

9. North Vietnam's economic goals during the post-bombing period have been characteristically modest. Annual plans usually call for improvement in all sectors of the economy but with no set targets, and since 1967, planning has been conducted solely on a yearly basis. Statements concerning plans and achievements in 1970 imply that the value of output of local industry was planned to increase by only 1% and for total industry by only 3%.

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10. In February 1970 a long article by Le Duan, Party First Secretary, laid out party guidelines for the country's future development. In discussing the North Vietnamese economy, he appeared to be defining long-range goals for a period of five to ten years. Le Duan's text placed more emphasis on heavy industry than other public commentary on economic goals, probably reflecting a longer range perspective. He did emphasize, however, that recovery of light industry and agriculture would have priority in the short term.

Agriculture

11. Agricultural output rose in 1970, with output of milled rice, estimated at 2.9 million tons, about 7.5% above output in 1969. This is not far short of the 3.0 million tons produced in 1965. Production of subsidiary food crops is believed to have paralleled the recovery in rice production. Since 1968 the regime has been only marginally successful in getting the peasants to resume cultivation of industrial crop acreage left fallow during the bombing years, but the regime claimed increases in 1970 in acreage as well as yields of a number of crops in this category, including groundnuts, sugar cane, tobacco, and cotton. The number of hogs was said to have reached an all-time high with an increase in average weight. The weather was generally normal in 1970, as in 1969.

12. Increases in agricultural production were attributed to greater acreage and wider use of high-yielding strains of spring rice, expansion of irrigation facilities, increased supply of nitrogenous fertilizer, and a number of institutional improvements, notably a new grain procurement directive issued in March 1970. The directive fixed delivery quotas for a period of five years as an incentive for peasants to produce. In previous years a successful harvest apparently often resulted in a higher government quota the following year. The agricultural labor force probably did not increase in 1970, because of the continued diversion of manpower into the military.

13. Rising production of food has resulted in a slight lessening of dependence on imports. Seaborne imports of food continued to decline in 1970

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to 660,000 tons (about 12%-13% of consumption), compared with peak imports of 790,000 tons in 1968. Although the regime has made self-sufficiency in food a major target, food imports can be expected to remain at fairly substantial levels, at least as long as the war continues. The population is about 12% larger now than in the beginning of 1965 and is growing some 2% a year. To eliminate the need for imports of grain and other basic foods within two years, for example, food output would have to increase 20% -- probably an impossible task.

Industry

14. Recovery in industry continues to be hampered by slow progress in repairing damage to modern plants, especially electric power stations. The gross value of industrial output reportedly increased by 5.5% in 1969 and about 6% in 1970, bringing total industrial output to an estimated 85% of the 1964 level. Output of local industry, which contributed around one-half the value of total industrial output prior to the bombing, reportedly increased during the past year by 4.3%. During 1965-70, moreover, emphasis on expanding the local economy has resulted in a reported cumulative growth of almost 15% in local industry, while production in centrally controlled industry, which includes all large-scale plants, declined sharply. Production trends in some of the major heavy industrial items are shown in Table 1.

15. Reconstruction of electric power facilities in 1970 brought capacity to 70% of the pre-bombing level, compared with 65% in 1969 and a low of 40% at the end of 1967. Production of electric power reportedly increased by 13% in 1970 and reached an estimated level of 510 million kilowatt hours. However, the industry operates with virtually no margin of reserve capacity, and much of the equipment currently in service is badly in need of general overhaul. Shortages of generating capacity have made it necessary to ration power supplies, to stagger work shifts, and to restrict service to new consumers. Frequent press articles in 1970 blamed electric power shortages for unfulfilled industrial output goals, and only nominal improvement seems likely in 1971. The slow pace of



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restoration in the power industry may stem from a decision to limit reconstruction efforts at damaged thermal powerplants in favor of resuming construction on the large Thac Ba hydroelectric powerplant, being built with Soviet assistance, where work was halted during the bombings. Capacity of the Thac Ba plant will be greater than all the generating capacity out of operation at the end of 1967. When this project is completed, probably not before the end of 1971, present restraints on power supplies will be largely removed.

16. The coal industry, a major foreign exchange earner before 1965, continues to encounter production difficulties caused by bomb damage as well as a host of other problems. Production of coal reportedly increased by 3.2% in 1970, but output was only three-fourths of the pre-bombing level of 4 million tons. Presumably because of increased domestic consumption, however, coal exports declined to 370,000 tons in 1970, the lowest level in six years, compared with 430,000 tons at the height of the bombing in 1967 and 1,200,000 tons in 1965. At the end of 1970, [REDACTED]

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[REDACTED] two of the four coal-loading cranes in the port still were out of operation. Additional problems periodically aired in the press include poor management, low labor productivity, and equipment in disrepair. [REDACTED]

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[REDACTED] further increases in production will be small until there is wholesale replacement of obsolete mine equipment and modernization of coal transport and processing facilities. Exports may not recover until completion of a Polish-aided coal-processing plant -- now scheduled for 1973.

17. The tempo of construction at other damaged industrial facilities has been relatively unchanged over the past two years. The Haiphong Cement Plant, which was put out of operation in April 1967, has been restored to about 75% of its former capacity. Five of seven cement kilns in the plant currently are in service, but work on the remaining two was halted in August 1970 for unknown reasons. The Thai Nguyen Iron and Steel Plant was out of operation from early 1967 to mid-1970, when one of three blast furnaces apparently was test-fired, and subsequently was put into sustained operation late in the year. Restoration of the other furnaces

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and extensive remaining damage to the steel complex is likely to require several years. No attempt thus far has been made to reconstruct the Nam Dinh Textile Plant, the Co Dinh Chromite Concentrating Plant, or the Bac Giang Nitrogen Fertilizer Plant. Although the volume of general construction in 1970 was claimed to be greater than in 1969, construction projects were hampered by limited supplies of skilled labor, materials, and funds. Construction organizations were criticized especially for failure to complete projects on schedule, and hence plans for 1971 stress the completion of unfinished projects rather than initiation of new projects.

Transportation

18. Steady improvement and expansion of transportation facilities continued in 1970. Enlargement of shipping berths and new warehouses at the port of Haiphong neared completion. A substantial railroad realignment project was finished on a ten-mile section of the Dong Dang-Hanoi line, near the border with Communist China. This project involved construction of numerous tunnels and bridges in difficult mountainous terrain. The new section will replace the original line where steep grades and short-radius curves both slowed traffic and limited the number of rail cars in a train. In the Panhandle of North Vietnam, construction continued on new branches and extensions of the two petroleum pipelines extending into Laos. In addition, a new and larger pipeline system was begun in the northern part of the country. This latter pipeline extends about 26 nautical miles westward from Va Chai, near Hon Gai, toward an unknown destination that may be Hanoi or Haiphong. The type of construction involved suggests that the system will be a permanent oil transport medium, providing a possible alternative to the current oil import procedure at Haiphong. There is, however, no evidence yet of channel improvements or tanker mooring facilities in the area of Va Chai.

Labor and Productivity

19. Efforts are being made to augment the labor force in the face of continued manpower drains. During 1965-70 the civilian labor force increased

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by an estimated 2%, whereas without the war the increase would have been about 12%. College and vocational students will be required to engage in production on a part-time basis, and a conference was called in February 1971 to mobilize more women for the labor force. The percentage of women in the labor force as a percentage of all women aged 15 to 65 has increased only slightly. One offsetting factor to military induction, however, is that until troops are sent out of North Vietnam they are not entirely removed from the labor force and are required to take part in construction, industrial production, and agricultural harvests.

20. Much stress also was placed on reducing the inefficiencies engendered by decentralization and lax management practices of the bombing years. Criticism of low labor productivity began in 1968 and rose to a crescendo in 1970. In basic construction, it was admitted that the effectiveness of investments was wasted because construction took too long, projects were left unfinished, or quality was poor. Fixed assets in agriculture were said to have deteriorated. Wastage of raw materials, fuels, and semi-finished materials in industry exceeded prescribed norms. Utilization rates for machinery in the central machine building industry reportedly were only two-thirds of the norm.

21. While complaints such as these are hardly unusual in Communist countries, it is evident that North Vietnam does have a serious productivity problem. Industrial employment apparently is above pre-war levels while productivity is far lower. This is openly recognized by the regime, which sets productivity achievements in 1964 as goals to shoot at. There is ample evidence that vast amounts of machinery and equipment -- nearly all imported and paid for with aid from other Communist countries -- are used at a small fraction of their capacity, if at all. Machine tools, distributed to many small shops to repair trucks and other equipment, often lie idle. Small electric generators, imported to partly substitute for bombed out capacity in large electric powerplants, are not usable for many industrial purposes. Maintenance standards are poor.

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Decentralization of industry has greatly complicated the distribution of materials and parts and contributed to the shortage of competent managers.

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22. Characteristically, the regime is trying to improve the situation by stimulating labor and management to greater effort. Wage schedules are being reviewed to reflect more realistically skill and effort. In industry and construction, piece-work wages have been instituted and probably will spread rapidly. Plans also call for a transfer of people from administrative duties to production activity. Such changes as these are unlikely to have much effect, however. Labor productivity probably will remain low until the main large-scale plants have been rebuilt and the men have returned to civilian work.

Foreign Trade and Aid

23. The total volume of North Vietnam's sea-borne imports during 1970 from Communist and Free World countries was about the same as in the previous year, although some shifts in composition took place (see Table 2). Imported foodstuffs declined by almost 100,000 tons, reflecting some improvement in domestic agricultural output.

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24. Imports of investment goods declined slightly in 1970 from the high 1969 level, as shown in the following tabulation, indicating that no acceleration took place in economic development efforts.

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	Million US \$					
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Metal and metal products	9	18	18	23	28	34
Machinery and equipment	48	97	126	150	185	168
Transportation equipment	12	17	21	27	59	47
<i>Total</i>	<i>69</i>	<i>132</i>	<i>165</i>	<i>200</i>	<i>272</i>	<i>249</i>

25. North Vietnamese exports in 1970 remained at about the 1969 level. Exports of apatite, which were resumed in 1969 after virtually a three-year halt, increased sharply. Cement and coal exports, however, showed significant declines that probably stem from failures to restore production at a time when domestic construction and fuel requirements are increasing. Pig iron exports were absent for the third consecutive year. Exports of general and miscellaneous goods, mostly consumer items, increased.

26. Communist deliveries of economic aid to North Vietnam have hovered at roughly \$500 million annually for the last three years (see Table 3). Since 1965, exports to other Communist countries have generally covered less than 10% of imports, compared with one-third in the previous decade. The lack of resources or of domestic capability necessitates continued imports of petroleum, fertilizers, vehicles, steel, and most machinery. Reconstruction of bomb damage would be practically impossible without foreign technicians and imported industrial equipment.

27. Aid from Communist countries apparently will continue to provide military equipment for prosecution of the war, machinery and technicians for economic development, and commodities to make up for shortfalls in domestic output. Unlike past negotiations which involved a single negotiating team for all Communist aid and a time-span of about two months, the main trade and aid negotiations

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for 1971 lasted from September 1970 to January 1971 and involved two separate North Vietnamese negotiating teams. The reason for this departure from past practice is unknown; it might have been an insistence by the donor countries on a more thorough justification of aid requests. Announcements concerning the 1971 agreements did not differ fundamentally from traditional statements, and as usual they made no mention of details concerning values or quantities.

28. The USSR contributed two-thirds of total economic assistance in 1970, maintaining its position as the primary aid donor. The share of economic aid supplied during the past year by Communist China amounted to 18%, and by Eastern Europe 15% (see Table 3). The only major shift in the source of imports during 1970 involved foodstuffs, most of which previously was supplied by Communist China. The USSR became the dominant supplier of foreign foodstuffs in 1970, providing about two-thirds of the total imported. Except for food, Communist China's deliveries remained typical of the past few years, including consumer goods, a variety of machinery, and other bulk commodities. Eastern Europe's contribution to North Vietnam continues to be in the form of specialized, relatively expensive machinery and equipment, the total of which almost equals the USSR's contribution. For the third consecutive year, military assistance has declined. Military aid deliveries during 1970 are tentatively estimated at \$155 million, a decrease of approximately 30% from the \$225 million delivered in 1969.

#### Consumer Welfare

29. Food and other consumer goods were possibly somewhat more plentiful in 1970 than in the previous two years, judging from the increase in agricultural output as well as the increase in output of local industry where most of the consumer goods are produced. Prices in the free market fluctuated within previously observed ranges, indicating no severe shortages. Statements by regime leaders concerning "belt tightening" were presented in the context of reducing wastefulness, rather than reducing the availability of consumer goods.

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30. Only nominal progress was made in rehabilitating housing damaged or neglected during the bombing. Although lipservice is paid to the need for more housing, the government definitely gives a higher priority to construction of transport and industrial facilities. Foreign assistance to education is devoted to training a large number of students in other Communist countries. However, the value of this training is lessened when returning students either are placed in inappropriate fields or have to undergo political reindoctrination that often removes them from the labor force for as long as one year.

Short-Range Prospects

31. The trends of the past two years are likely to continue in 1971. The 1971 economic plan eschews any overall growth target and appears to establish the same priorities as the previous two plans. If the weather is reasonably good, growth rates near last year's 6% can probably be maintained in industry and agriculture. Industrial growth may accelerate after the expected recovery of electric power capacity in late 1971. Other basic problems, however, including shortcomings in management and labor quality, are unlikely to be much improved until the war is over.

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Table 1  
Indicators of Industrial Output in North Vietnam

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
	<u>Million Kilowatt Hours</u>					
Electric power production	570	520	300	350	450	510
	<u>Thousand Metric Tons</u>					
Coal	4,000	3,600	2,500	2,800	2,800	2,900
Cement	660	655	200	120	250	330
Apatite	853	350	200	250	250	350
Chromite ore	12	Negl.	Negl.	Negl.	Negl.	Negl.
Iron ore	400	300	80	30	30	100
Pig iron	200	150	40	15	15	50

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Table 2

North Vietnam: Seaborne Imports and Exports a/

	<u>Thousand Metric Tons</u>						
<u>Cargo</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	25X1
<i>Total imports</i>	847	1,030	1,417	1,967	1,700	1,888	

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<i>Total exports</i>	1,713	1,168	573	694	573	581	25X1
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*a. Because of rounding, components may not add to the totals shown.*

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Table 3

## Estimated Communist Aid to North Vietnam

	Million US \$							
	<u>1954-64</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970 <sup>a/</sup></u>	<u>Total</u>
Economic aid	<u>950</u>	<u>150</u>	<u>275</u>	<u>380</u>	<u>480</u>	<u>470</u>	<u>535</u>	<u>3,240</u>
USSR	365	85	150	200	240	250	360	1,650
Communist China	455	50	75	80	100	90	95	945
Eastern Europe	130	15	50	100	140	130	80	645
Military aid <sup>b/</sup>	<u>140</u>	<u>270</u>	<u>455</u>	<u>650</u>	<u>390</u>	<u>225</u>	<u>155</u>	<u>2,290</u>
USSR	70	210	360	505	290	120	70	1,625
Communist China	70	60	95	145	100	105	85	660
Eastern Europe	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	5 <sup>c/</sup>
Total aid	<u>1,090</u>	<u>420</u>	<u>730</u>	<u>1,030</u>	<u>870</u>	<u>695</u>	<u>690</u>	<u>5,530</u>
USSR	435	295	510	705	530	370	430	3,275
Communist China	525	110	170	225	200	195	180	1,605
Eastern Europe	130	15	50	100	140	130	80	650

a. Preliminary.

b. Valued at Soviet foreign trade prices. Data refer exclusively to combat material, excluding aid designed for war-support purposes.

c. The cumulative value of deliveries from Eastern Europe.

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